

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

In the Matter of the Reconciliation of
Illinois-American Water Company for Approval)
of Its Annual Reconciliation of Purchased Water)
and Purchased Sewage Treatment Surcharges) Docket No. 06-0196
Pursuant to 83 Ill. Admin. Code § 655.)

**RESPONSE OF THE PEOPLE OF THE STATE OF ILLINOIS TO THE
DRAFT PROPOSED ORDER SUBMITTED BY ILLINOIS
AMERICAN WATER CO.**

The People of the State of Illinois generally support the draft Proposed Order submitted by the Illinois American Water Company (the Company or IAWC). The People agree with the conclusions and substance of the Proposed Order of IAWC, but would like to propose that the description of the testimony of AG/Homer Glen witness Scott J. Rubin be expanded so that the bases for his opinions, and for the Company's later revisions to its testimony, are clearer.

The People request that the Commission adopt the following as the description of the Position of the AG and Homer Glen in regard to the testimony of Scott J. Rubin. This would replace the Position of the AG and Homer Glen found at page 4 of the Company's Proposed Order. A marked-up version of the Company Proposed Order is attached.

The Position of the AG and Homer Glen

Mr. Rubin filed both Direct and Supplemental Direct Testimony in this proceeding. In his Direct Testimony, Mr. Rubin testified that the Company's reconciliation data suggested that IAWC has sold more water than it purchased from the supplier in three of seven districts. (AG/HG Ex. 1.0, p. 9.) Mr. Rubin recognized that although water sales might exceed purchases from the supplier in any given reporting month because of timing differences attributable to when retail and purchased water meters are read, Mr. Rubin contended that the difference between purchases and sales were too large in Alpine Heights, Moreland and Waycinden to be due to just timing differences. (*Id.*, p. 8.) While Mr. Rubin acknowledged that wholesale meters could

have been under-recording, he pointed out that the Company owned and was responsible for two of the three wholesale meters. He also expressed concern about whether the retail meters were properly recording usage. (*Id.*, p. 10.)

Mr. Rubin also testified that the Company's levels of UFW were high. According to Mr. Rubin, the term "UFW" refers to a combination of "non-revenue water," such as water used to fight fires or for system maintenance, and "truly" unaccounted-for water, such as water lost through leakage. Mr. Rubin contended that Chicago Suburban, DuPage and Southwest Suburban each experienced years when the level of UFW was "excessive," and that over the last three years the UFW levels have fluctuated widely. (*Id.*, p. 12.) For example, in 2003 in the Chicago Suburban area, the Company would have to purchase 5,000 gallons while it sold only 4,000 gallons, revealing a lost or unaccounted for water percentage of 21%. In 2004 and 2005 the UFW rate declined to the 10-11% range. The Southwest Suburban area UFW fluctuated from 6.5% in 2002 to 17.5%, 11%, to more than 15% in subsequent years. (*Id.*, p. 13.) In Mr. Rubin's opinion, fluctuations of this magnitude could be caused by faulty meter reading and poor record-keeping rather than because of physical operations.

Mr. Rubin also considered the "unaccounted-for-flow" (UFF) calculation required by the Illinois Department of Natural Resources required of users of Lake Michigan water. He stated that UFF is a subset of UFW, and is always a lower number. (*Id.*, p. 17) Mr. Rubin identified three Company districts with UFF above the Illinois Department of Natural Resources level of 8% in 2004 and 2005. (*Id.*, p. 17) Mr. Rubin alleged that the Company did not appear to be engaged in a rigorous program to minimize the level of wasted water. (*Id.*, p. 18.) He also challenged the Company's cited authorities concerning acceptable ranges of UFW, taking the position that UFW should be less than 10% citing the American Water Works Association Committee Report, which he attached to his Direct Testimony at AG/HG Ex. 1.12. (*Id.*, p. 20.)

In his review of Company data, Mr. Rubin found that, for DuPage County, Southwest Suburban and Waycinden, the total of the daily meter readings provided by the Company in discovery did not match the monthly totals shown on the respective Exhibit C for each Area. Mr. Rubin further testified that the data for Southwest Suburban and Waycinden provided by the Company, if accurate, showed that the Company purchased 1.2 billion gallons more water in Southwest Suburban than it reported in its reconciliation data. (*Id.*, p. 16.)

Mr. Rubin originally recommended that the Commission prohibit the Company from using an automatic purchased water surcharge rate for variable costs until a comprehensive billing and metering audit was completed. Instead, he recommended that a purchased water surcharge rate per 1,000 gallons be established based on the lowest level of UFW in the Company's filings for each Area, using zero where the lowest UFW was less-than-zero. (*Id.*, pp. 20-21.)

As for purchased wastewater, Mr. Rubin recommended that the level of infiltration and inflow for Country Club be reduced by 50% to account for repairs made to the DuPage County storm sewer system in October 2005. (*Id.*, pp. 25-26.)

In Supplemental Direct Testimony, which Mr. Rubin filed after receiving IAWC's supplemental discovery responses and Revised Supplemental Direct Testimony, Mr. Rubin noted that the Company had addressed his concerns relating to (i) "negative UFW," *i.e.*, apparent sales in excess of water purchased from the supplier; (ii) high UFW; and (iii) the upgrade in the storm sewer system affecting the Country Club Area. (AG/HG Ex. 2.0, p. 1.) Mr. Rubin stated that he continues to have concerns about the Company's metering, billing and accounting records, along with the level of UFW in IAWC's Purchased Water Areas. Mr. Rubin recommended that the Company's most recently filed purchased water and purchased wastewater surcharge rates be allowed to take effect, and that the Commission closely review future reconciliation filings and metering records to ensure they are prepared using accurate data. Mr. Rubin also recommends that the Commission monitor IAWC's efforts to reduce UFW, "including carefully reviewing the UFW filings the Company is required to make before the end of 2006 under a new statute, 220 ILCS 5/8-306(m)." (*Id.*, pp. 3-4.)

The People request that the Commission incorporate the above language in the final Order in this docket in order to clearly state the evidence submitted by AG/HG witness Scott J. Rubin.

Respectfully submitted,

People of the State of Illinois
by LISA MADIGAN, Attorney General

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